

CALIFORNIA DEPARTMENT OF PUBLIC HEALTH

Independent Auditor's Report

COMPLIANCE AUDIT OF THE SAFE DRINKING WATER STATE REVOLVING FUND

For the Fiscal Year Ended June 30, 2010



JOHN CHIANG
California State Controller

March 2011



JOHN CHIANG
California State Controller

March 30, 2011

Mark B. Horton, M.D., M.S.P.H., Director
California Department of Public Health
1615 Capitol Avenue, MS 0500
P.O. Box 997377
Sacramento, CA 95899-7377

Dear Dr. Horton:

The following is the report on the compliance audit for the California Department of Public Health's Safe Drinking Water State Revolving Fund for the fiscal year ended June 30, 2010.

Our audit disclosed that the department complied, in all material respects, with the requirements referred to in the report that are applicable to each of its capitalization grants for the Safe Drinking Water State Revolving Fund for the year ended June 30, 2010.

If you have any questions, please call Andrew Finlayson, Chief, State Agency Audits Bureau, at (916) 324-6310.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/wm

cc: Kevin Reilly, DVM, MPVM, Chief Deputy Director of Policy and Programs
California Department of Public Health (via e-mail)
Jose Ortiz, Acting Chief Deputy Director of Operations
California Department of Public Health (via e-mail)
Alan Lum, Acting Deputy Director–Administration
California Department of Public Health (via e-mail)
Merrienne McDonald, Chief of Accounting
California Department of Public Health (via e-mail)
Rufus Howell, Deputy Director, Center for Environmental Health
California Department of Public Health (via e-mail)
Gary Yamamoto, Division Chief, Drinking Water & Environmental Management
California Department of Public Health (via e-mail)
Leah Walker, Chief, Technical Programs Branch
California Department of Public Health (via e-mail)
Addie Aguirre, Chief, Infrastructure Funding Administration Section
California Department of Public Health (via e-mail)
David Whitsell, Chief, Internal Audits
California Department of Public Health (via e-mail)
Karen Petruzzi, CDPH Audit Coordinator
California Department of Public Health (via e-mail)
Julianne Talbot, CPA, Division of Accounting
and Reporting, State Controller’s Office (via e-mail)

Contents

	<u>Page</u>
Independent Auditor’s Report	1
Schedule of Expenditures of Federal Awards	3
Notes to Schedule of Expenditures of Federal Awards.....	4



JOHN CHIANG
California State Controller

Mark B. Horton, M.D., M.S.P.H., Director
California Department of Public Health
1615 Capitol Avenue, MS 0500
P.O. Box 997377
Sacramento, CA 95899-7377

AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO THE FEDERAL PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the compliance of the California Department of Public Health's Safe Drinking Water State Revolving Fund with the types of compliance requirements described in the U.S. Office of Management and Budget's (OMB) *Circular A-133 Compliance Supplement* that are applicable to the capitalization grants for the Safe Drinking Water State Revolving Fund program for the year ended June 30, 2010. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the department's management. Our responsibility is to express an opinion on the Safe Drinking Water State Revolving Fund's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the capitalization grants for the Safe Drinking Water State Revolving Fund program occurred. An audit includes examining, on a test basis, evidence about Safe Drinking Water State Revolving Fund's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Safe Drinking Water State Revolving Fund's compliance with those requirements.

In our opinion, the department complied, in all material respects, with the requirements referred to above that are applicable to each of its capitalization grants for the Safe Drinking Water State Revolving Fund for the year ended June 30, 2010.

Internal Control Over Compliance

The management of the department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the department's internal control over compliance with the requirements that could have a direct and material effect on the federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the department's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of department management, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

March 30, 2011

Schedule of Findings and Questioned Costs Year Ended June 30, 2010

SECTION I—Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over the program:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	No
Type of auditor’s report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	No
Auditee qualified as low-risk auditee?	Yes

Identification of the program:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
--------------------	--------------------------------

66.468	Capitalization Grants for the Safe Drinking Water State Resolving Fund
--------	--

SECTION II—Financial Statement Findings

No findings were noted.

SECTION III—Federal Award Findings and Questioned Costs

No findings were noted.

Schedule of Expenditures of Federal Awards Year Ended June 30, 2010

Federal Agency/Program Title	Federal Catalog Number	Federal Expenditures
U.S. Environmental Protection Agency:		
Capitalization Grants for Safe Drinking Water State Revolving Fund	66.468	\$ 70,040,137
ARRA-Capitalization Grants for Safe Drinking Water State Revolving Fund	66.468	\$ 26,295,168
Total	66.468	\$ 96,335,305

The accompanying notes are an integral part of this schedule.

Notes to the Schedule of Expenditures of Federal Awards Year Ended June 30, 2010

NOTE 1— BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal Capitalization Grants for the Safe Drinking Water State Revolving Fund grant activity of the California Department of Public Health. The schedule is presented on the accrual basis of accounting. The information presented in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Accordingly, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

NOTE 2— LOANS TO SUBRECIPIENTS

Of the federal expenditures presented in the schedule, the department disbursed \$60,428,104 in loan proceeds to subrecipients in the current year.

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874**

<http://www.sco.ca.gov>